Self-Inflicted Wounds

Posted by Pierluigi Oliverio on Monday, May 16, 2011

The City of San Jose did not need to go to voters before issuing a bond to purchase the Hayes Mansion, but it would need supermajority approval before issuing a road-paving bond.

Although we are entering "road paving season" we have next to nothing for the maintenance of our 2,300 miles of road. This issue was raised at the city council meeting last week.

A question was asked about issuing bonds to pay for road paving. To issue bonds you need a source of revenue, such as a tax. For example, the $300 annual parcel tax for road paving that was discussed during the Council study session last year. This parcel tax would require appproval by a two-thirds supermajority of San Jose voters; however the two-thirds requirement may drop to 55 percent if the legislature changes the law as is currently being discussed.

I asked the question at the council meeting: "Did San Jose voters approve the bonds for the Hayes Mansion and Golf courses?" (In my view these are an example of self-inflicted wounds as the City chose to purchase these facilities). The answer from the city attorney was no, since they were lease revenue bonds. Cities can issue lease revenue bonds anytime as long as there is collateral such as property for the bond. I asked what was the collateral for Hayes Mansion and got a fuzzy answer that the City took over a lease from HRLP, which is approximately $5 million a year from the general fund.

I then asked about the collateral for the golf course and was told the course itself was the collateral. This seems strange but apparently it is legal as it is called "certificates of participation." I then asked: So, when we issue commercial paper to pay the SERAF payment to the State, does that diminish our ability to borrow? The answer was yes, since we may exceed our debt ceiling.

I then asked what city property is not collateral today, since so many city properties are being used as collateral, including the California Theater, Mexican Heritage Center, etc.. The answer was that the finance department maintains a list, however, not one property could be identified at the council meeting that was not collateral for debt. To be fair, sometimes any of us could be asked a random question and not know the answer. However it would seem like there must be one property that has not been secured as collateral for the purpose of borrowing. I suspect we may be near the end of having properties available as collateral.

As individuals we may dream of things we cannot afford and furthermore sometimes we cannot say no to someone. Same is true for government—both the elected officials and the voters who elect them.

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